



Budget Gimmicks And Pay-Go Avoidance,
All Used to Hide Farm Bill's Excessive Spending
A Budget Perspective

The U.S. Senate is currently considering the Farm Bill. Despite a strong agricultural economy, spending under this bill totals \$605 billion over ten years. **Even more egregious is the fact that the bill includes \$18 billion in budget gimmicks and mechanisms to avoid pay-go budget discipline**, all of which will have long-term budgetary consequences, which is one reason why this bill has a long-term point of order against it.

- **Overall Cost of Bill is Extremely High, Despite Strong Farm Economy**
 - **Total spending under this bill is \$605 billion over ten years, including nearly \$190 billion for farmers through commodity, conservation and crop insurance payments.**
 - However, **the farm economy has never been stronger** – net farm income is projected to be \$92.3 billion this year, which is 51 percent greater than the 10-year average. Farmers are experiencing near-record income and investment returns.
 - In addition, **prices for subsidized crops are at record highs** – wheat, corn, barley, soybeans and rice prices have more than doubled compared to their 5-year average price.
 - Arguments that direct payments have been “reformed” ring hollow, when a \$300 million “reduction” is compared to an overall annual expenditure of \$5.2 billion.

- **\$18 Billion of Budget Gimmicks Used to Mask Spending, Avoid Pay-Go**
 - **Timing shifts for payments under commodity and crop insurance programs cause \$4.5 billion to be pushed outside the 10-year budget window**, exempting this spending from Pay-Go rules.
 - In addition, the bill sunsets some increases in certain programs after five years to make the bill look like it costs less and to make it easier to comply with Pay-Go rules. **The largest of these hidden future costs is the brand new agriculture disaster trust fund, which is only created for five years and then disappears – leaving out almost \$4 billion in costs that would occur in the second five years.**
 - The bill also reflects **\$2.4 billion in costs that were incurred “for free”** to cover extension of the Milk Income Loss Compensation (MILC) Program. A one-month extension was included in the FY07 supp for this sole purpose – increasing the program’s costs (and therefore the baseline) by \$2.4 billion

over ten years. No committee was charged with this increase – a giant loophole in budget enforcement.

- Finally, **the bill shifts corporate estimated tax payments**, requiring corporations to make \$4.5 billion in higher estimated tax payments in 2012 and correspondingly lower tax payments in 2013. This type of shift has become a popular “offset,” being used in 7 conference reports passed by the Senate so far in this session of Congress.

➤ **Plays Games With the Budget Baseline**

- Using the latest estimates by the Congressional Budget Office (CBO), as required under House rules, **the Farm Bill Conference Report busts the budget and increases the deficit by \$7.4 billion – violating Pay-Go for the 2008-2013 window that the House is supposed to be enforcing.**
- **The rule accompanying the Farm Bill Conference Report in the House simply waived the House’s own Pay-Go rules** to prevent any one member from raising the Pay-Go point of order that would kill the Conference Report.
- **Ironically, Congress is likely to take up the FY2009 Budget Resolution Conference Report in the next few days, following consideration of this Farm Bill Conference Report.**
 - Doing this allows the Senate to avoid having to confront this Pay-Go issue that the House is pretending doesn’t exist (since Senate rules say that until a new budget resolution is enacted, the previous year’s baseline is used).

➤ **Contains Bad Fiscal Policy**

- **Permanent Disaster Aid** – Establishes a new \$3.8 billion mandatory agriculture disaster assistance trust fund, a benefit not provided for any other industry or, for that matter, anyone else in America. Not even a trust fund, it is simply spending more money on agriculture disasters. Most of this \$3.8 billion would go to **Texas, North Dakota, Minnesota, South Dakota, Kansas, Iowa, and Georgia**, states that have received the majority of ad hoc disaster aid and where these “emergencies” occur year after year. Furthermore, federally subsidized crop insurance was significantly expanded in 2000, purportedly to help alleviate the need for future disaster aid. Yet Congress has continued to pass ad hoc disaster aid bills, the most recent example being \$3.7 billion enacted as part of the FY07 supp. There is nothing in this Farm Bill to prevent Congress from passing ad hoc agriculture supplemental bills in the future, and that is sure to occur.
- **Little Real Reform for Income Limits** – Current law restricts commodity payments to those with an adjusted gross income (AGI) of less than \$2.5 million and under this bill, that doesn’t really change.
 - **A married couple with an annual AGI of up to \$2.5 million can receive payments** (because a person can have up to \$500K in non-farm income but also up to \$750K in farm-income, for a total of \$1.25 million, and, a spouse with up to that same amount of income can also qualify).
 - The AGI “reform” touted by the bill’s proponents only saves \$286 million, a far cry from the \$1.6 billion in savings achieved under the Administration’s proposal that would have only provided payments for those with an annual AGI of less than \$200,000.

- **Allows Gaming the System to Collect Subsidies Even When Prices Are High** – The bill does nothing to limit the practice of farmers locking in subsidy payment rates at the lowest market prices yet retaining their crop to sell later when the prices are much higher. **As a result, farmers are paid subsidies for losses they never incur.**
- **Continues Subsidies for Ethanol** – Extends ethanol tariff for two years through 2010, **making it more difficult and more expensive for the United States to meet its growing demand for renewable fuels such as ethanol, and further protecting domestic ethanol producers when corn prices are at a record-highs.** The bill also decreases the corn ethanol production tax credit (i.e. blender credit) from 51-cents to 45-cents. Why are we still subsidizing a commodity (through both a tax credit and tariff) that is in such high demand and fetching such a high price?
- **Makes the Sugar Program Worse and Further Distorts the Market** – **Further increases the support price for sugar so it is supported at almost double the world price, at a cost of \$233 million.** The bill also reserves 85% of the U.S. market for domestic producers at these guaranteed prices and creates a new sugar-to-ethanol program that would require the federal government to buy surplus domestic sugar and then sell it to ethanol plants, likely at a loss.

➤ **Contains New and Expanded Programs For Targeted Special Interests**

- **Asparagus Payments** - \$15 million for asparagus producers in only three states - California, Michigan, and Washington.
- **Large Chickpea and Camelina Subsidies** - Establishes new subsidies for large chickpeas and Camelina (an experimental oilseed for biofuel production), which largely benefit only 4 states: Idaho, Washington, California, and Montana.
- **More Subsidies for Dried Peas, Lentils, Small Chickpeas** – The 2002 Farm Bill added these crops (aka “pulse crops”) to the list of subsidized crops, but only made them eligible for one of three subsidy programs. This bill opens another subsidy (counter-cyclical payments) to pulse crops. Almost 80% of pulse crops are grown in only 5 states, North Dakota, Michigan, Washington, Idaho, and Montana.
- **Fisheries Disaster Assistance** – \$170 million is provided for the salmon fishery failure in California, Washington, and Oregon.
- **Frivolous Spending Earmark Authorizations** –
 - Creates a **Farm and Ranch Stress Assistance Network** to provide behavioral health programs to farmers.
 - Provides for **construction of a Chinese Garden** at the National Arboretum.
 - Includes an authorization that extends authority **to preserve, rehabilitate or repair historic barns.**